

STUDENT LOAN PROVISIONS

Students were eligible before the Deficit Reduction Act for \$23,000 in student aid. **Nothing in this bill changes that.**

The bill actually **increases the maximum amount of subsidized loans for first- and second-year students** from \$2,625 and \$3,500, respectively, to \$3,500 and \$4,500.

The bill also provides new **SMART grants for math and science students** and **eliminates the origination fees on student loans.**

These three provisions spend \$9.25 billion on students.

The Act does not change interest rates for students. In the House version of the bill there was a provision that would have changed interest rates, but it was removed in conference.

In 2002, we established a fixed rate (beginning July 1, 2006) for parent and student loans on a bipartisan 372 to 3 vote in the House:

- Students interest rates were fixed at 6.8 percent
- Parents interest rates were fixed at 7.9 percent

The following two provisions (Parent PLUS Loans and Lender Yields) save the government \$14.3 billion over 5 years.

Parent PLUS Loans - Parent loan interest rates are currently variable with a cap of 9 percent. As mentioned, parent interest rates were scheduled to be fixed at 7.9 percent on July 1, 2006. Under the Deficit Reduction Act, the parent loan interest rate will be raised to a fixed 8.5 percent rate on July 1, 2006.

Lender Yields - Another large piece of the student loan savings is the repeal of lender subsidies. Under current law, the federal government guarantees lenders will get a “fair market rate” of return.

When student and parent loan interest rates are lower than the “fair market rate,” the federal government makes up the difference for the lender.

But when the student and parent loan interest rate is higher than the fair market rate, the lender gets to keep the difference. We changed this so that the federal government will keep the additional amount, not the lender.

Provisions **Reducing** Spending: \$20.26 billion
Provisions **Increasing** Spending: \$9.25 billion

NET SAVINGS: \$11.01 billion